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THE FINANCIAL SITUATION.

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A. CONANT; AND CHARLES B. MACDONALD.

I.

THE RELATION OF THE UNITED STATES TREASURY TO GENERAL FINANCE.

THE United States Treasury in its relation to the banking and financial interests of the country has occupied, since the creation of the national banking system, to go back no farther, an illogical, not to say an unjustifiable, position. By the National Banking Act, with its several amendments, the Government became sponsor for banking institutions now numbering more than 6,500. The rights, duties, qualifications and responsibilities attached by law to all these institutions were fixed by the Government itself. Having brought these agencies into being, it virtually declared to the citizens of the land: "These are worthy agencies, and they deserve your confidence. For the faithful performance of the duties imposed upon them, and in the interest of your safety, we, the Government, will maintain over them a watchful and detailed supervision, disciplining those unfaithful to duty, while we will peremptorily suspend the power

of any who shall prove unfit." Clothed with those high warrants and sanctions, the national banks as a whole have made successful appeal to the business world; and these institutions now taken together are under money obligations to the people for a sum in excess of four thousand millions of dollars.

What has been the practical attitude of the Government, as expressed through its Treasury and fiscal department, to the banking agencies it has thus endowed with life? It can be set forth in a single paragraph. Never has the Government itself intrusted its financial interests to the safe-keeping of the agencies it has held out to the people as worthy of their respect and confidence. It has, indeed, on several and divers occasions, taken moneys from the Treasury hoard, and, under peculiarly exacting conditions, it has, for various periods of time, deposited a portion of these hoards with banking institutions; but it has in no way conformed to the general method by which the banking agency is utilized by the business public. It has, in fact, persistently refused to receive from that portion of the public from which it derives its enormous revenues those instruments of credit, known as "checks" and "drafts," which constitute the real currency of commerce and trade. Separate, distinct and aloof from the ordinary financial and industrial life to which, through its revenues and disbursements, it stands closely related, it is persistent in exacting cash in hand from its revenue contributors; while, on the other hand, it has distributed its payments in actual funds through its own special appointees.

In all these particulars, it has been as if the banking agency did not exist, or, if existing, as if it were unworthy of Government use. The excess of its revenues, when excess there has been, was withdrawn from that public service to which through the banks it might have been applied.

This, I say, was illogical. It might, indeed, have lain in the mouth of the great corporations—such as railroads, the Standard Oil Company and other enormous handlers of money values—to say to the Government: "Your ingenious so-called banking system does not commend itself to our respect and confidence. We believe neither in the people with whom we deal, nor in the banks you have created. Our revenues, however derived, must come to us in actual money. The device of checks and drafts, so convenient and economical to the people in their other

affairs, does not appeal to us. Having the power in our relation to do so, we dictate the conditions. Our money, when received, we will lock up; and, in the natural financial intimacies of life, we will stand separate, apart and independent. We justify this action on the ground that your banking system is unsafe."

Now, if it were excusable on this ground for these great corporations to take this arbitrary position—which nobody will affirm—it were inexcusable for the Government to do so, since the Government itself determined and decreed all the qualifications for safety and efficiency which its own creatures should possess.

Was this course of action on the part of the Government necessary for just prudence as to the safety of its funds, or proper economy in administration of its affairs? In answer to the first half of this question, I affirm it to be the fact, demonstrated by careful and thorough examination, that had the Government employed the national banks in centres known as the "reserve cities," depositing with them its revenues, with some just proportion to or regard for the relative capital of those various institutions, with no security from them whatever other than a first lien upon their assets, respectively, there would never have been a dollar of loss to the Government. If, on the other hand, the Government had required, in consideration for these moneys so deposited, an interest return by the banks of, say, two per cent. per annum, the Government would have realized from this source, up to the present time, a total revenue of something more than \$70,000,000.

As to economy of administration of the Treasury funds, there would also have been an enormous saving, since the elaborate machinery of the Sub-Treasury and Sub-Treasuries need not have been employed. Nevertheless, the creator has steadily refused to employ its own agencies, while the rest of the business world, obedient to the law of economic advantage, has employed in its multifarious affairs the useful machine of banking-credit which the Government has thus rejected. To add piquancy to this contrast, it might be truthfully said that were the aforesaid large financial corporations to abandon their present methods and adopt instead the example of the Government, and install, each for itself, an "independent treasury," a cry of indignant protest would resound through the length and breadth of the land—

and rightly so, unless it be that our modern system of credit and credit machinery for the transfer of property and payment of accounts, etc., is a delusion and a snare.

If the credit system can be thus characterized, the Government is, no doubt, justified in maintaining its own private purse independent of all things else. It is in that case equally true that every one controlling money values should adopt the same rules. In short, the National Banking Act should be repealed. We are not, however, ready to return to a method closely allied to primitive barter. Concede this, and then the Government is wrong—economically and logically wrong—in its independent Treasury. The disturbing influence on general financial affairs of excessive money-hoarding by the Government has been too often described to require any detailed notice here. If, then, a vote were to be taken among those who have capacity to judge of things in their true relationships, I do not doubt that the proposition to abolish the independent Treasury and substitute for it the use of banking agencies as they *now* exist would receive a preponderating vote. I may be wrong in this opinion. I myself would hesitate, however, to vote in the affirmative on that proposition. I should much prefer that the motion be “laid upon the table” until our banking system can be so amended that it shall be free, or comparatively free, from the perturbations which periodically beset us, bringing in as a consequence a partial or complete suspension of the banking function upon which society depends for the regular ongoing of its business affairs.

I need hardly say that the amendments to which I refer must be in the line of unification or centralization of power. The banking units, whose weakness as they now exist has been so often demonstrated, must receive strength by association together or with some superior commanding agency able both to exercise control and furnish effective support. A central bank or a Government bank of adequate capital properly organized for safety and efficiency is the sort of an agency to which I refer. Great Britain, France and Germany offer good models which we may profitably study.

I would maintain the independent Treasury until such time as our banking system is so re-enforced; because, in spite of the lack of logical reasons for its existence, it has been, and is now, in our imperfect condition, the only agency which can, or

theoretically can, regulate and give to some extent a degree of steadiness to the erratic movement incidental to our financial and banking system as now operated.

By its intervention, the Treasury, on many occasions in the past, has averted threatened financial disaster. Given an always plethoric Treasury, directed by an infallibly wise administrator (one who has never yet appeared), it could, by timely deposits of these hoarded moneys, and by timely withdrawals of the same, in part or in whole, give steadiness and regularity where otherwise there would be irregularity, dislocation and panic. In these regards, the independent Treasury, when endowed with the needful power in money, can, and in my opinion has, to a degree, served the purpose and discharged in a crude way the functions of a great Government or central bank. This service, crude as it has been, often entirely lacking through want of power, often badly directed through lack of wisdom, is a development not anticipated nor foreseen in the laws establishing the independent Treasury. It illustrates an old truth often recognized that even out of evil good may incidentally come. Be the service to which I have referred worth little or much, it cannot safely be counted upon as a valuable factor in the future. The present overflowing Treasury, through changed conditions, may, at no distant date, be in a state of exhaustion. A perfect system of Government finance would, indeed, bring in each day from its sources of revenue a sum exactly adequate to meet its daily expenditures. We ought not, then, to retain permanently the independent Treasury for the sake of its ambiguous and uncertain control as an intermediary in our financial life, with which it should by right interfere to the smallest degree possible.

My conclusion, then, is, first, that the independent Treasury should be abolished whenever and as soon as our present banking system, which has been demonstrated to be faulty, is corrected in the direction I have pointed out rather than described; second, that the perfecting of our banking and currency system—so that it may at all times perform its important function in a safe and effective manner both for the Government and for all the people—is an end demanding the best thought and the most intelligent effort of financial students and political economists, and of all patriotic people who desire for their country what will best make for its economic welfare.

The end so much to be desired cannot, however, be achieved by any thoroughgoing revolutionary action. The proposition is too large, the complex problems too numerous, the involved financial relations of the Government too firmly fixed. To illustrate this, we have the legal-tender notes of the United States, with their special reserve fund of \$150,000,000. We are met with the fact of a silver currency of some \$600,000,000 possessed of a commercial bullion value of something like half that sum. For the difference between these stand the credit and pledge of parity by the Government. Who is to take the place of the Treasury in the practical work of maintaining equivalencies between these Government obligations and gold? I point also to the artificial status of United States bonds. Now impounded as security for national-bank notes, the question of an "elastic" bank currency is handicapped by the necessity of protecting vested interests, which would be imperilled by any course which would give an open, natural and free market to Government securities.

There is the guaranty of the Government to bank-note issues, an illogical and, I believe, a harmful influence in the currency. There are the established Sub-Treasuries with all their appointments and appointees. There are the great bureaus at Washington, known as the issue and redemption division, with the hundreds composing their personnel, all dear to the heart of the political administration. These reflections bring in the suggestion that "reform" must be by graduated steps, with possibly long intervals between each; it must be effected by modifications rather than by radical changes. The first object to be gained, as it appears to my thought, is the perfecting of the Banking and Currency System. This once placed upon scientific foundations, the next question will be in order, namely, how to bring the Treasury into more natural and more harmonious relations with our general financial interests through a broader utilization of the Bank Agency.

LYMAN J. GAGE.

II.

THE NATION'S CURRENCY AND BANKING SYSTEM.

THE dry details, indicating the condition of our banking and monetary system, and suggesting the future of financial affairs, are not, ordinarily, of sufficient interest to the average reader

to claim the time and attention necessary to a thorough understanding of them; but the subject has been so vividly brought to the fore by the recent stringency, by the efforts to relieve it and by the various suggestions as to how a repetition of it might be obviated, that a wide-spread and general interest in the question seems to have been created.

There is that in the situation itself, at the present moment, which demands the careful consideration of the thoughtful, as to whether our system is all that it should be, and, if not, how it should be reconstructed to meet future emergencies without creating opportunity for other and even more serious contingencies. Without going far into the voluminous figures which substantiate conclusions, a few preliminary facts will aid to the proper study and easier understanding of the necessities confronting those who attempt to correct the imperfections, and will indicate the value of the safeguard required.

No grave and general upheaval of financial affairs comes without more or less warning to those whose business it is to watch the signs of the times. The conditions both at home and abroad, very early in the present year, indicated the probability of a contraction in business in general and a tightness in the money-market, but the extraordinary conditions which developed in October were not foreshadowed to any appreciable extent in the bank reports as a whole up to August 22nd. There was a steady increase in the volume of loans and discounts—an increase due in part to the number of new banks chartered during the year, but mainly to increase in the business of the old associations. Individual deposits, representing fifty per cent. of the banks' liabilities, reached the maximum in the history of the system on May 20th, 1907, when they amounted to \$4,322,841,141. The number of depositors in savings-banks reporting—exclusive of those having accounts in savings departments of the State banks of Illinois—increased since 1900, from 5,898,091 to 7,982,893, and the average deposit increased from \$404.33 to \$437.86. For the current year, individual deposits in all reporting banks aggregate \$13,099,635,348—a gain of nearly six billion dollars, or 80 per cent., in the last seven years. The highest record of increase in individual deposits, in the year ending June 30th, 1907, was made by banks in the Western States, where they increased nearly twenty per cent. during the single year.

In 1891, the outstanding circulation of national banks reached the lowest point in the life of the system since 1865—only about \$167,000,000, representing ten per cent. of the stock of money in the United States. There was very little variation from that percentage up to 1900, when the proportion increased to 13.23. On June 30th, 1907, national-bank notes represented 19.38 per cent. of the money in the United States.

Incident to the usual business of clearing, documents termed "Clearing-house certificates," representing lawful money deposited for the purpose, are issued for the convenience of members of the Association in settling balances. Under section 5,192 of the Revised Statutes, such certificates are deemed lawful money in the possession of any Association belonging to the Clearing-house issuing such certificates. Under exceptional circumstances, they have also issued Clearing-house loan certificates, based on bills receivable and other securities approved by the loan committee.

The Director of the Mint, from the most recent and reliable data obtainable, estimates that, at the close of the calendar year of 1906, the stock of money in the world was \$14,280,100,000. Eighty-two per cent. of the gold was held by eight countries, as follows: The United States, \$1,593,300,000; Germany, \$1,030,300,000; Russia, \$939,400,000; France, \$926,400,000; England, \$486,700,000; Austria, \$306,400,000; Italy, \$215,500,000; Spain, \$90,900,000. Over 56 per cent. of the stock of silver was held by the same countries, the United States leading again with \$698,700,000.

In 1890, Mulhall estimated the world's banking power at \$15,985,000,000, of which the United States was credited with \$5,150,000,000. Since that year, the banking power of the United States alone has increased to \$12,674,800,000—over 146 per cent.; that of all the other countries has increased only to \$16,199,200,000—the banking power of the United States being thus little less than one-half that of the entire world. These colossal proportions and comparisons but imperfectly indicate the enormous extent of the banking and monetary system with which we have to deal in making any radical change.

There has been no lack of warning indications of financial troubles. For the last ten or twelve years there has been an era of advancing prices and of great industrial, commercial and

speculative activity, in all countries of the world. Credits were increased till the limit was reached in the amount of reserve money on which they must be based. For two or three years, it has been constantly more evident that there must be a slackening of the pace if we would avoid a general crisis in commercial affairs. As is always the case, when there is a demand for liquidation, it first manifests itself in the stock-market. For months, there has been a more or less steady decline in quotations. The difficulty in selling bonds became so great that many of the railways have had to raise money for their necessary expenditures through short-time notes instead of by the regular bond issues. Merchants and manufacturers of the highest credit have found it harder and harder to renew loans, and the rates have risen, steadily, for months.

It was under such conditions that we approached the autumn crop-moving period, when there are always withdrawals of balances from the reserve cities. For a time, there was reason to hope that there might be no more than a gradual liquidation of credits which would not develop into a bank or commercial crisis. But, in October, the collapse of a highly speculative corner in stocks dealt in on the "curb" in New York—not even listed on any regular exchange—brought suspicion upon an old and well-established national bank. Examination showed this bank to be entirely solvent; but public interest had been aroused to such an extent that runs developed in New York city on several other banks and trust companies. Some of them were not prepared for co-operation and protection against the sudden demands, and a number of failures followed.

In this emergency the Clearing-house banks of New York issued Clearing-house certificates for use in the payment of balances, and decided to suspend the shipment of currency to out-of-town banks. This example was followed by the central reserve banks and most of the other reserve cities, of necessity precipitating a famine of currency and a serious bank crisis. The means of remittance and collection were almost entirely suspended. Individuals, corporations and even the banks themselves drew and held all the money of any kind they could obtain. A curious feature of the situation was that there was more of a panic among the banks than among the people; but the hardship was to business generally. Every class of business was

interfered with, so that business operations of every kind were curtailed. Factories have suspended, workmen have been thrown out of employment, orders have been cancelled, the moving of crops has been retarded, exports have fallen off at a time of the year when they should be at their highest. Another serious result has been the reduction of the volume of foreign credits available, just at the time when they are most needed to offset the large imports of gold which have been made.

It was not the failure of a few banks which brought on the panic. It was the system which rendered a panic practically inevitable under certain conditions—and they are conditions which can be many times repeated. It was not lack of confidence on the part of the people, but lack of confidence in the banks themselves. They were fearful that the reserve system would break down, and it broke down. They were fearful that a sufficient amount of currency could not be supplied to meet the demands—the demands were all made at once and there was not a sufficient amount to meet them. The remedy lies in improving the reserve system, so that the reserve deposits of the banks shall be kept where they are always and certainly available, and in imparting to our currency system an element of elasticity, so that, when there comes a sudden demand for bank-notes, they can be supplied without obliterating the reserve. This can only be satisfactorily accomplished through the establishment by the Government of a central bank of issue and reserve—the system which is working so satisfactorily in all of the great commercial centres of Europe. It would not only solve the two great problems of our banking system, but would also provide the machinery for conducting Treasury operations with the least disturbance.

The real weakness of our present banking system is the result of the provision regarding reserve deposits, through which the reserves are piled up in central reserve cities, without a sufficient amount of actual cash reserve on hand, so that when an emergency arises the reserves are not reserves at all. It would help against embarrassment to add to the reserve required, all along the line; but the proper solution is to increase the amount and require all reserves to be held in a central bank organized for that purpose. The depositing bank would not only be sure that the funds were always available, but that, as long as it was

solvent, it could go to the central bank and get any amount of cash needed on notes of its customers or other good security. With such a bank to depend on, no solvent bank need ever doubt its ability to meet all possible demands.

The law concerning reserves, as it stands, requires that a minimum reserve of twenty-five per cent. on deposits be held in lawful money in the vaults of the central reserve city banks. The reserve cities must also keep twenty-five per cent. reserve, one-half of which may be on deposit in the central reserve banks. Banks in all other cities are required to keep fifteen per cent., three-fifths of which may be on deposit in reserve or central reserve cities. With any lack of confidence, this system is necessarily a source of weakness instead of strength. Realizing upon what small margins they depend, each bank is, in self-defence, impelled not only to collect its loans, but to withdraw its reserve deposits. Deposits of \$10,000,000, in country or non-reserve banks, call for a cash reserve to be kept in those banks of only \$600,000, with \$900,000 on deposit in reserve city banks. These banks must have in their vaults only \$112,500 of the amount, with the same amount on deposit in central reserve cities, where, in turn, there need be on hand but \$28,125 representing it. There is, therefore, but \$740,625 in cash, kept, unloaned, anywhere, against this deposit of \$10,000,000 in the country banks. Of this only \$140,625 is outside the banks' own vaults. If there is a reduction in the deposits of the country banks, of \$150,000, out of the ten millions, only one and one-half per cent., it calls for more cash than has been kept on hand in reserve banks for the whole ten millions. What wonder that the fall demand for \$200,000,000 in currency, for crop-moving, always causes anxiety, and that when it is accompanied by a withdrawal of deposits and curtailment of credits, caused by uneasiness or distrust, the banks are forced to drastic measures in self-defence.

There is nothing new in this situation. It has been known to all students of our banking and currency system, and has been written and talked about for many years. It has produced panic after panic, and a stringency in the money-market every fall for forty years. It was wholly due to this that the crisis of October assumed the phase of a bank panic and spread over the country. There was no other reason at all why the banks as a whole should have become involved, and their business and

that of all of their customers disturbed as it was. All that was needed to have prevented this was a proper system of credit bank-note currency and bank reserves, both of which would have been supplied by a central bank of issue and reserve. There would have been no scarcity of currency, no derangement of domestic exchange and no panic among the banks or among the people.

The only way in which bank-deposit credits can be properly protected from sudden calls, when all banks may be involved at the same time, is by a system of note credits which can be at any time and immediately exchanged for deposit credits. They are essentially the same thing, and they should be daily, hourly, if necessary, convertible from one to the other. With such a system there is no inflation or expansion when a note is paid out, and no contraction when a note is returned. It makes no difference to the bank or to any one but the customer, who uses either at his option, whether the deposit remains in the bank as a credit to be checked against or is taken away in the shape of a circulating note.

Our bond-secured bank-notes offer no help to a bank in sudden calls for deposits. They are a fixed currency, issued on the secured currency principle, as distinguished from the credit or banking principle. When issued they stay out indefinitely, only returning to be renewed when worn out. It is only when the bonds for security can be borrowed or some Government deposit is obtained that they are of any value in meeting an emergency. It will not help the matter to increase the volume of bonds. It would only increase the volume of rigid, unelastic notes. They would only be a power of expansion till they were issued. Then they would stay out, with no tendency to contraction when not needed. There would be no temporary expansion possible to meet the sudden demands of an emergency. We must have a note circulation which can change quickly and automatically in response to demands. Contractibility is quite as necessary as expansibility. Several of the panic reliefs which have at various times been suggested have good points. They would serve a purpose in quieting a panic after it is under way, but not in preventing it. The use of Clearing-house certificates by the banks has been found a very efficient means for their defence, and on many occasions has probably prevented a great number of

bank failures during panics. But they are only half-way measures. They carry us no farther than to the inevitable conclusion that we should have a national and central bank of issue and reserve. Clearing-house certificates, which are really credit-notes on a large scale, should be issued by a central bank under Government authority. This would have none of the disadvantages of the other system, while it would have all of the advantages and many more besides.

The real need is for something that will prevent panics, not for something that will relieve them; and the only way to attain this is through the agency of a Governmental bank. The experience of all other countries has demonstrated this. We shall surely have panic after panic till we learn the plain lesson which the others have learned and adopt the only efficient, scientific and proper means to protect our business interests. It is a matter of greater importance to the people at large than it is to the banks themselves. The banks devise ways and means to stand together, with the aid of the Clearing-house, and by suspension or partial suspension of payment to bridge over and avoid failure. But the other business interests of the country are left almost in a state of chaos. The machinery of domestic exchange suddenly stops. Collections and remittances are almost impossible. Manufacturers are forced to suspend. Workmen are thrown out of employment. Business men are forced to fail through no fault of their own. There is no citizen of the United States who is not in danger of more or less loss and embarrassment. And worst of all is the long period of depression which follows a panic, bringing suffering and privation to those who are in no way to blame. The thing which is absolutely essential is a banking system with bank-notes which will be responsive to the demands of business and will as readily contract as expand; with a system of bank reserves which shall be real reserves and always immediately available.

The installation of a central Government bank would be of incalculable value to all of the business interests of the country, and it would also solve the problem of the relations of our Treasury Department to business. It would provide a reliable and efficient system of handling our Government finances, add stability and safety to our banking system, and shield and protect the citizen in all the relations which are so vital to him for

the conduct of his business and the support of his family. When the revenues of the Government are in excess of the expenditures, there is always the problem before the Secretary of the Treasury as to how, quickly and efficiently, to replace in circulation the money which the Government is forced to collect. To deposit it with the banks is the only means available, but that course is unsatisfactory, unsystematic and inefficient. It is always a course provoking criticism and complaint. A central Government bank, to which all revenues could be paid and through which all disbursements could be made, would be far better for the Government and result far better for the people.

Such a bank should not be allowed to do a general commercial business. It should be confined to the Government business, the issue of credit-notes, the receiving of reserve deposits from other banks, the discounting of their paper on approved security or rediscounting of their notes from their customers. It should have the right to deal in bonds of the Government, and probably of States and municipalities, but not in stocks. It should have such authority for dealing in foreign exchange as would enable it to accumulate gold credits abroad and import gold and bullion when needed for its reserve. It should have exclusive right to issue bank-credit notes, and it could thus regulate the issue of notes in accordance with the demand, which would be determined automatically, and with perfect precision, through its relations with other banks. We need make no change in the present system of bond-secured notes of national banks, nor disturb the present volume of currency.

Such a bank would also be a great aid in the establishment of a Postal Savings-bank system, determining at once how the deposits should be handled and invested to prevent such savings-banks only adding to the amount of money which the Government already takes out of circulation. It would also greatly improve the efficiency and value of the Treasury Department, making it a means of assistance and benefit to business, and would make our currency and banking system a source of impregnable strength in times of financial stress. It would absolutely prevent, in the United States, the recurrence of any wide-spread bank panic. It would add to the stability of our business in every line, and give us a banking and financial system equal to any in the world.

The panic of last October only endorsed the lesson of the panics

from 1857 to 1893, in demonstrating beyond denial that perfectly solvent banks, if isolated units, without co-operation, cannot protect themselves and save themselves from failure without such suspension of payments as to produce demoralization in all the business of their customers. Well-managed, sound and solvent banks have often been forced to refuse payment, and commercial, industrial and financial affairs have been thrown into confusion in the past, and will be in the future until the Government provides the necessary machinery to protect them in times of excitement. The nations' banks must depend upon the nations. They do in other countries. They must in ours. Our financial stability will be subject to constantly recurring attacks until this plan becomes an established fact.

WILLIAM B. RIDGELY.

III.

THE LESSONS OF THE PANIC.

THE recent financial panic was due chiefly to the excessive manufacture of securities during the past ten years. Every panic has its special phases. While there is a similarity in the evolution of each, yet no two spring from exactly the same causes. The experience of one crisis is the lesson which guards against the same errors in the next; but, after the law has tardily and clumsily patched over the weak spots in old conditions, some new form of enterprise in finance brings on a new period of over-speculation and unwise banking. The panic of 1873 was largely due to over-extension of railways; that of 1893 was precipitated in this country by the danger of departure from the gold standard, although there were deeper causes which affected the whole financial world. In the panic of 1907, demands for capital from the railways had their share, but they were less influential than the abuse of industrial securities.

The essential feature of the recent panic was the collapse in prices of the great mass of securities poured upon the market since the revival of enterprise at the close of the last century. There were two possible dangers in this creation of new securities—some of them might not be good; and even if they were good, the amount might be greater than the available supply of capital would absorb. The difficulties of the recent situation

were, chiefly, that private industries of many kinds were turned into the form of the joint stock company with a rapidity which disregarded important financial safeguards in detail, and created an extensive volume of securities in gross. The absence of proper cash reserves, the issue of large volumes of securities against good-will, and the effort to persuade the public that this good-will would be speedily converted by proper economies into great profits, were among the features common in some respects to all periods of inflation, but carried on this occasion to an unusual degree of variety and ingenuity.

A few far-sighted and resourceful men, impressed with the evils of unrestricted competition, devised the first mergers. When the possibilities of the system were once revealed, men of financial daring, but of less constructive genius, sought to apply the new formula to every industry they could lay their hands on. The possibility of getting rich overnight, by the creation of securities, dawned with such dazzling power upon the mind of the promoter that he was able not only to deceive himself as to the ultimate results, but, by dangling the golden bait before conservative bankers and offering to share with them the spoil, to tempt them as well as the public. Private enterprises were turned into corporate form, promoters approached the heads of established industries with offers to buy out their interest with bonds; the mania to "put together" competing interests spread to every hamlet where there was a mill or a factory.

New issues of securities have gone on during the past decade at an amazing pace. For the United States alone the careful compilation of the "Journal of Commerce" puts total issues in 1906 at \$1,637,013,350 and for 1907 at \$2,102,552,000. When these amounts are added to estimated amounts of \$35,000,000,000 already existing in 1905, it appears that nearly one-third of the wealth of the country is represented by negotiable securities. Careful estimates for the entire world, made by the "*Moniteur des Intérêts Matériels*," put the net demands for new capital in 1903, after eliminating refunding operations, at \$1,846,500,000; for 1904, at \$2,431,700,000; for 1905, at \$3,364,600,000; and for 1906, at \$3,125,000,000. The figures for 1907, when fully compiled, are likely to be much larger. The total volume of securities in the world, with many probable omissions, is computed by experts at over one hundred thousand million dollars.

It is impossible to make comparisons for previous years for all classes of corporations, because the data are not available; but in several great classes, where statistics have been kept, in the United States, including Government issues, steam-railways, street-railways, national banks and trust companies, the par value of securities outstanding increased by nearly 25 per cent. from 1900 to 1905 and by 50 per cent. from 1890 to 1905.

Inevitably the issue of such a mass of new paper upon the world's markets, even if the paper had represented absolutely sound enterprises, would have created an opportunity for speculation such as the world has never seen. By the organization of the American system of dealing in securities, facilities are afforded for frenzied speculation which are lacking in Europe. Among the factors which offer this encouragement are the concentration of idle money from the West in New York when it is not needed for moving the crops; the system of permitting reserve deposits by national banks in New York, Chicago and St. Louis; the system of daily settlements on the New York Stock Exchange, instead of fortnightly settlements as in London, with the wide fluctuations which it causes in rates for call money; the acceptance of cash margins for speculating in securities from persons without financial responsibility to an extent unknown in Europe; the absence of elasticity in the currency system; the employment of national-bank notes instead of gold in local banking reserves; and the lack of any central control of the discount rate or the gold supply. Added to these local factors have been several of world-wide character, of which the large issue of securities and the rapid increase in the production of gold have been important.

It is not possible to deal here with all these elements of the problem. It is proposed only to refer to several which are either of the first importance or have not been given their full weight in other discussions of the subject.

In the first place, there is a fundamental error, appreciated by but few, even among conservative bankers, in the theory that securities represent circulating capital. In fact, they represent, almost invariably, fixed capital,—divisible shares or obligations of railways, buildings and factories. The distinction between fixed and circulating capital is somewhat abstruse for the unprofessional mind; but it means that savings which have been put

into permanent properties cannot be gotten out of that form, while savings which have been put into the ordinary processes of production in the form of raw materials and wages come back within a year, usually in a few months, in the form of cash paid for the articles produced and the labor employed. But, in more concrete form, the manufacturer who employs his capital in buying wool and paying wages to turn it into cloth has reason to expect that the cloth will be sold, and that the transaction will be completed within a limited time. The bank which takes a note based on such a transaction knows that the note will be paid from the proceeds of the sale of the cloth. When the transaction is completed, the money is paid and the debt is extinguished. If the demand for woollen cloths falls off, the manufacturer buys less wool, the amount of cloth produced is smaller, and banking transactions shrink in proportion.

No such quick liquidation of the capital invested,—no such adjustment of supply and demand,—takes place when capital is in the form of stocks and bonds of railways and mills. The capital has been put into permanent form. The divisible shares are easily transferable, through the system of the stock exchanges and transfer offices, and to the untrained investor they doubtless appear to represent circulating capital in a form much more effective and negotiable than the promissory note of the merchant in the hands of a bank. But, when the tide of speculation turns and banks begin to reduce the valuation of securities pledged for loans, there is no automatic law under which the supply of securities decreases, as commercial paper decreases when business declines. If an insufficient supply of capital in the market is confronted by an excessive issue of securities, the struggle to obtain capital in exchange for securities becomes more intense than the fabled struggle of the nations, under the theory of the bi-metallists, to drag over their shivering forms the scanty blanket of the world's gold.

Banks save themselves when securities decline by demanding additional margins. If these margins are not forthcoming, securities are thrown on the market for what they will fetch, prices tumble with a crash, and every broker or speculator is seized with panic. By these processes, while the quantity of securities remains rigid or is increasing, their value expressed in prices shrinks by the pressure of liquidation. It is an application, in a sense,

of the same principle which is laid down in the quantity theory of money. Securities fall in the ratio in which the supply of circulating capital has been diminished. The banks are saved, but the investor finds his properties shrunk far below the price he paid; and the speculator on margins, who has been dreaming of a fortune acquired overnight by the upward movement of prices, finds his margins wiped out and his golden dreams turned to leaden nightmares.

When to this condition in the American speculative markets, and to this policy of enormous loans on securities on the part of banks and trust companies, is added a currency system which has no adaptation to modern financial conditions, it is not surprising that panic and loss should occur. The lack of elasticity in the American bank-note system has been so often pointed out that it need not be dwelt upon in this article. There is a very serious menace in the situation, however, which has not yet been much discussed. This is the expansion of bank-note issues under a system which does not keep them related to gold. Thus far in the history of the United States, since the resumption of specie payments in 1879, a combination of happy accidents has blinded the eyes of the public to the danger of issuing notes upon bonds. The danger comes not chiefly from lack of quality in the bonds, but from the paper inflation which would ensue if bond issues became excessive.

Limited as circulation has thus far been to United States bonds, this menace has not confronted the country as a realized fact. It would loom large, however, if the proposition were once seriously entertained of allowing indiscriminate issues of bank-notes upon other classes of bonds. Safeguards regarding the quality of the bonds would afford no protection against the wildest paper inflation if the quantity available were beyond the legitimate currency needs of the country. If municipal bonds alone were admitted to the list of securities for circulation, over \$2,000,000,000 would be available. Steam-railway bonds outstanding in 1905 were over \$6,000,000,000; and, if only half fell within the provisions of the law prescribing their quality, there would be an opening for an inflation of the paper circulation exceeding in volume anything which has ever taken place in the most destitute southern republic.

The essential danger of bank-note issues on bonds is that the

quantity of bonds has no relation to the volume of current business, and notes thus issued are not subject to the great touchstone of the world's values, the ebb and flow of gold between international markets. If \$1,000,000,000 in new paper were suddenly infused into the circulation of the United States, the effect would be to drive abroad approximately \$1,000,000,000 in gold. This would mean suspension of gold payments, descent to an irredeemable paper basis, and a repetition of the unhappy experience of France with the *assignats* and of our own country with Continental money. The value of the security in liquidation would weigh little against the excess of the quantity of tools of exchange, and the absence of any provision that their quantity should be governed by the tests of values in all sound markets,—redemption in gold on demand and the maintenance of adequate gold reserves.

Curiously enough, the country has been going through a sort of paper inflation of this nature without realizing it. State and private banks and trust companies are usually permitted by State law to carry bank-notes in their reserves. As a matter of fact, they carry all forms of currency; but the fact that they are authorized to hold bank-notes, and are not required to hold lawful money only, as are the national banks, is practically equivalent to permitting them to build up their credits upon the bank-note, which is only another form of credit. If one form of credit can be thus used as a reserve against another, practically no limit is fixed to the excesses of speculation.

What has happened to demonstrate this theory? A glance at the expansion in State and trust-company banking affords the answer. The aggregate figures for all these institutions, except national banks, and including savings-banks, are as follows:

Growth of State Banking.

	1900.	1907.
Number of institutions.....	9,519	13,317
Total resources.....	\$5,841,658,820	\$11,168,514,516
Cash reserves.....	\$220,667,109	\$391,847,497

This table shows that the State banks and the trust companies have been able, by increasing reserves by about \$171,000,000, to increase the volume of their obligations by \$5,325,000,000. The reserve stands in the ratio of less than four per cent. of total liabilities. This percentage would be somewhat improved, of

course, if only deposits were taken into account, instead of gross liabilities; but, for the purpose in view here, the gross figures will serve equally well as an illustration.

Whence came the cash to increase reserves sufficiently to expand credit by five thousand millions? In any European country, the answer would be that it must have come by the importation of gold. And the gold could be obtained only by making such prices on export commodities and on securities, and such rates for money, as should prove attractive to foreign holders of gold. But, in the United States, expansion of bank-note issues occurred from \$246,277,222 on January 1st, 1900, to \$687,340,835 on December 28th, 1907. Here was an increase of about \$440,000,000 in a form of credit counted by State banks as reserve money,—sufficient to form the tottering foundation of ten thousand millions of an airy structure of new credits! Perhaps those bankers who have manufactured credit through State banking institutions to the extent of five thousand millions are to be congratulated, like Clive, upon their moderation, when the increase in bank-note circulation alone would have permitted them to add another five thousand millions if securities had been manufactured fast enough to afford them the basis for making loans.

A volume might be written upon the dangers of this sort of financing; and yet it has gone on so gradually and unobtrusively that only with the appearance of the assembled figures of the Comptroller's report for the banks of all the States has the amazing character of this inflation been revealed.

What are the remedies against such dangers in future? There are many which might be considered,—the stricter regulation of trust companies, already proposed by Governor Hughes; changes in Stock Exchange methods which would diminish speculation on insufficient margins; regulation of corporations after the English fashion,—not for the purpose of clubbing the corporations over the head, but of protecting the investor; and a currency system which will afford a sheet-anchor in time of stress.

Macaulay declared of the American Constitution that it was "all sail and no anchor." He might have made the same declaration of our existing financial system. When the crisis came, conservative and resourceful skippers, who had watched with forebodings the reckless crowding on of sail by reckless boy captains, came to the front and welded together a few temporary

anchors out of such remnants of conservatism and sound finance as they found at their hands. They saved the ship by warping her off the rocks. What is needed, however, to keep the ship upon a steady course is a strong, permanent and well-tested anchor under the direction of an intelligent and far-sighted skipper with unquestioned power to act. This would be afforded, so far as the banking system is concerned, by the creation of a central bank of issue, with authority to rediscount for other banks, to issue its notes to meet business demands, to keep its reserves in gold, and to regulate its general policy by the state of the foreign exchanges as reflected by the movement of gold.

Every other advanced commercial nation has such an institution. France adopted it under the great Napoleon; Bismarck made it a part of the unification of the German Empire in 1873; backward Spain came to it in 1874; Austria-Hungary and Russia adopted it when they sought to put their finances upon a sane basis. Even Japan rejected our system of a bond-based currency issued by local banks, and intrusted her currency system to the Bank of Japan in 1882. Italy practically adopted the system after the bank scandals of 1893; and as recently as 1904 a central bank went into operation in Sweden, and in 1907 in the Swiss Republic. Only by such an institution, directed by officers approved by the Government, can the requisite unity be given to the financial system. The unity of action secured tardily in all our great panics by the union of leaders for self-preservation would become an established and smooth-working system.

A central bank stands like a Gibraltar amidst the waves of financial turmoil, where isolated banking units perish. With such a power of regulating the money-market, the grotesque gyrations of call rates for money, which make our market a wonder for civilized nations, would cease. With such an institution, the disgraceful spectacle of currency suspension, in time of profound peace, by all the banks of the richest nation in the world would be no longer possible. But, until some of these reforms are inaugurated, New York can never permanently command foreign capital at will, nor become a centre upon which foreign exchange would be drawn in transactions outside her own immediate local needs. Our present financial system is the outgrowth of Treasury needs in 1863. It handicaps this country in the contest with financial rivals as completely as an old side-

wheeler of 1863 would be handicapped in the race across the ocean with the "Lusitania" or the "Mauretania," or as the old wooden ship-of-the-line would be outclassed under the fire of a modern battle-ship.

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IV.

OUR PRESENT CRISIS.

IN an effort to judge concisely the character, the causes and the probable result of the 1907 panic, I have made a comparison between the present panic and the other great panics which have occurred in this country, and which have to a greater or less degree involved the world's markets. By "great panic" I mean one in which the country's banks have practically all suspended payments. This country has experienced five panics of that description—in 1837, 1857, 1873, 1893 and 1907. There were a number of intermediate disturbances or semi-panics, but they did not prostrate the country commercially and industrially. The similarity of the conditions which prevailed at these periods forces one to the conclusion that, in each and every instance, the same underlying cause occasioned the inevitable crisis.

The most striking similarity is to be found in the index price of commodities. In each panic, the index number reached its greatest altitude. In no other year can one find such high prices for commodities as prevailed immediately before and up to these panic periods. Our own index numbers do not run back to the early panics, but Dr. Soetbeer and Mr. Saurbeck clearly demonstrate the high range of commodity prices in 1837, 1857 and 1873. Dr. Soetbeer took one hundred Hamburg articles and fourteen articles of British export. Mr. Saurbeck took forty-five English prices. In America both Dun and Bradstreet show that commodity prices in June, 1907, were the highest ever known in America, ranging, as the index number did, some fifty per cent. higher than in 1906.

The question naturally arises: What caused the commodity prices to rise to such heights before these panic periods? The fundamental cause in every instance was the increase in the circulating medium of exchange, or money. That increase, though more or less gradual, has always been accompanied and

followed by an extension of business in every quarter, apparent national prosperity, speculation in stocks and land, until credit became unduly expanded to a point of inflation. That condition has been accompanied by national and personal extravagance, resulting usually in over-production and over-stocking; until, finally, in a cloudless sky, in the midst of plenty, every one is astonished to hear a crash.

Chaos ensues. One to five years of stern economies and readjustment follow. Then everything becomes normal, and again we pluck up courage and start on our ride for another fall. We learn little by our experience—and in a generation one forgets!

It is all Human Nature. The natural phenomena of this panic of 1907 in no wise vary, in any marked degree, from those which have attended every other great panic.

Political economists all recognize that the political, industrial and social elements which make up our life are very closely related to the circulating medium of exchange recognized among nations. Alter that by greatly increasing or diminishing its volume, particularly the former, either by the operation of natural economic laws, or by legislating a substitute for money, and the political, industrial and social elements must adjust themselves to the new conditions, and, before that adjustment can be completed, almost invariably a panic ensues.

It is interesting and illuminating to read the Presidents' Messages in the years of the great panics. They all attribute the respective panics to our wretched banking system; yet we have done nothing to rectify it, and probably we shall not. The four previous panics occurred, respectively, in the inaugural years of the Presidents, and in two of the panics—namely, those of President Van Buren and President Grant—a special session of Congress was called to act upon Currency Legislation. Another curious coincidence is that the great New York fire occurred in 1835, the Chicago fire in 1871 and the San Francisco fire in 1905, in each instance two years before the panic.

Let us take up the panics in order.

Panic of 1837.—The States in 1832 substituted metallic for paper currency, and in 1835 paid off the national debt, at the same time abandoning the United States Bank, though Congress rechartered the Bank, and President Jackson vetoed it.

The Government deposits were taken from the United States

Bank and were placed in the various banks in different sections of the country. These banks were permitted to issue bank paper, which was done to excess. That was the fundamental cause of the panic of 1837. The banks suspended specie payments in May; in the fall the United States Treasury receipts were insufficient to defray the expenses of the Government.

Following are a few extracts from President Van Buren's special Message to Congress. His Message first states that there was great diversity of opinion as to the real causes. He attributed the panic to:

"Over-action in all departments of business, stimulated to destructive consequences by excessive issue of bank paper, and by other facilities for the establishment and enlargement of credit. The consequences of this redundancy of credit, and the spirit of reckless speculation engendered by it, were a foreign debt contracted by our citizens, estimated in March last at more than \$30,000,000; the extension to traders in the interior of our country of credit for supplies greatly beyond the wants of the people; the investment of \$39,000,000 in unproductive public lands; . . . the creation of debts for an almost countless amount for real estate in existing and anticipated cities and villages, equally unproductive, and at prices which now seem to have been greatly disproportionate to its real value; the expenditure of immense sums in improvements which in many cases have been found to have been ruinously improvident; deflection of much of the proceeds which should have been applied to other matters, such as the exportation of wheat to Europe [the States imported wheat in 1837]; . . . and, finally, without enumerating other injurious results, the rapid growth among all classes, and especially in our great commercial cities, of luxurious habits of living founded on merely fancied welfare, and detrimental alike to the industry, the resources and the morals of the country."

In 1837 the average of commodity prices reached the highest point touched, up to that time, in the history of the country.

Panic of 1857.—In 1849 gold was discovered in California. The total world's production of gold from 1700 to 1890 was \$1,300,000,000; from 1800 to 1850, \$820,000,000; and for the seven years, 1850 to 1856, inclusive, \$820,000,000.* This enormous increase in the production of gold, half of which occurred in the United States alone, caused an excessive extension of credits with resultant inflation. Everybody was eager to get rich immediately. Hence the fundamental cause of the panic of 1857 was this enormous production of gold.

* Soetbeer's "Materialism."

Listen to President Buchanan's reference to the panic in his Message to Congress, December 8th, 1857:

"In all former revulsions, the blame might be fairly attributed to a variety of co-operating causes, but not so on the present occasion. It is apparent that our existing misfortunes have proceeded from our extravagant and vicious system of paper currency and bank credits, inciting the people to wild speculation and gambling in stocks. These revulsions must continue to recur at successive intervals, so long as the amount of paper currency and bank loans and discounts shall be left at the discretion of 1,400 irresponsible banking institutions, which, from the very law of their nature, will consult the interests of their stockholders rather than the public welfare."

In 1857 the average price of commodities again reached the high point of 1837.

Panic of 1873.—The absorption of \$400,000,000 of gold by Germany to place the Empire on a gold basis, and the five billion francs paid Germany as a war indemnity, together with the enormous increase in the production of silver, which all the world except England and Germany recognized as a medium of exchange, was fundamentally the cause of this panic. The silver production amounted to \$40,000,000 annually in the fifties, \$55,000,000 in the sixties and \$91,000,000 in the seventies. In 1872 silver bullion prices commenced to decline, breaking for the first time in twenty years sixty pence an ounce.

After our Civil War, with an unsecured paper currency, we plunged into the excesses of credit inflation and speculation with nothing to back it. The \$50,000,000 of gold which we produced per annum we exported. Our imports exceeded our exports by \$109,000,000. No wonder this panic lasted five years, from 1873 to 1878.

The silver question aggravated this situation, as it did in the period of 1893 to 1896 to a much greater degree.

President Grant's Message relating to the panic of 1873 sounds somewhat like President Roosevelt's groping financial utterances in his last Message. The following are some extracts from President Grant's Message:

"In the midst of great National prosperity, a financial crisis has occurred which has brought low fortunes of gigantic proportions. . . . We can never have permanent prosperity until a specie basis is reached. . . . Exports must exceed imports. . . . Elasticity of circulating medium is desired. . . . Patent to the most casual observer that much more

currency is required to transact the legitimate trade of the country during the fall and winter months while the various crops are being removed."

The average commodity prices in 1873 reached a new high record in the country's history up to that date.

Panic of 1893.—The fundamental causes of this panic were the enormous production of silver and our silver coinage acts, causing inflation of an unstable currency, intensified by the demonetization of silver which had commenced throughout the world. After fifteen years of prosperity, every one was lulled to sleep. The lesson of 1873 was forgotten. Credits were inflated; imports for the first time in years exceeded exports; land speculation was rampant; commodity prices, for the first time in twenty years, rose close to the high prices of 1873; merchants were overstocked; many railroads had been "skinned" to enrich their executive committees; and our gold reserves were depleted. This panic lasted four years owing to the insistence by one-half of our population upon bi-metallism, or the free coinage of silver at the rate of sixteen to one. Our currency was finally recognized as being on a gold basis by the election of President McKinley in 1896. That was the first bright lining to the clouds we had seen in four years. President Cleveland called a special session of Congress to deal with the currency situation on August 8th, 1893, and in his Message he said:

"The existence of alarm and an extraordinary business situation, involving the welfare of all our people, has constrained me to call together in extra session the people's representatives. With plenteous crops, with abundant promise of remunerative production in manufacture, with unusual invitation to safe investment, and with satisfactory assurance to business enterprise, suddenly financial distress and fear has sprung up on every side. Many institutions have suspended because assets were not immediately available to meet the demands of frightened depositors. Depositors and individuals are content to keep in hand the money they are usually anxious to loan, and those engaged in legitimate business are surprised to find that securities for their loans, though heretofore satisfactory, are no longer accepted. Fortunes supposed to be fixed are now becoming conjectural, and loss and failure have invaded every branch of business.

"I believe these things are principally chargeable to Congressional Legislation touching the purchase and coinage of silver by the general Government."

Panic of 1907.—This panic in no wise varies in any degree, in

its natural phenomena, from the other great panics. The fundamental cause of the present panic is the enormous gold production. During the last ten years, inclusive of 1907, \$3,200,000,000 of gold has been produced, one-half as much again as all the gold produced in the 150 years from 1700 to 1850. In 1900 the production was \$254,000,000; to-day it is \$407,000,000 for 1907.

This augmentation of the circulating medium has had its inevitable natural result in rapidly rising values of commodities to a record level, causing production to be unduly stimulated, with unparalleled expansion of railroad improvements and manufacturing extensions throughout the entire business world—the banks, in consequence, extending their credits to a point of inflation. The above concomitants of all panics were also attended with the usual speculation in real estate and stocks.

The excessive inflation of credit was finally checked by the exhaustion of the currency upon which credit should be based, as was evidenced by the rapid rise of discount rates to a prohibitive level; railroads which in 1902 issued bonds on a three-per-cent. basis were obliged to pay eight to ten per cent. on short-term notes. These rates forced retrenchment, and retrenchment caused the edifice of credit to topple over.

It is probably true that President Roosevelt's attitude toward swollen fortunes, railroads and other corporations has hastened the crisis; but my personal opinion is that those who attribute this panic to his attitude are wrong, and that he in no sense has even been a contributory cause. His attacks drew to the surface, somewhat violently perhaps, some of the most deeply rooted evils which have always lain at the base of every great panic—that is, dishonesty in the administration of great aggregations of capital, the exposure and correction of which, if successful, will work for the lasting benefit of the entire country. My only wish is that our President in his denunciatory policies would absorb in his heart—making the whole country *feel* that it is there—the spirit expressed by his acknowledged ideal, President Lincoln, in those words contained in his last Inaugural Address: "With malice toward none, with charity for all." This would obviate the danger which even the President's best friends fear, namely, that of arraying class against class.

Corporations, whether trusts or not, honestly managed, are a

national bulwark, and equally advantageous to rich and poor alike. The poorer man with his surplus has always the opportunity to invest his earnings in any corporation he desires, and it is now the policy of all enlightened corporations to give special terms for investment to their employees; but in view of the insurance, Alton, Metropolitan and other disclosures, it must be apparent to the densest intellect that the public must be guaranteed against dishonest manipulation of corporation affairs.

The best reason I can give why this panic arrived ahead of time, the twenty-year period, is the distrust and lack of confidence which was disseminated throughout the country by the insurance disclosures, and then the revelations which indicated that the executive committees of our largest and strongest corporations, directed by men whose names the country had been taught to conjure with, were running those corporations largely for their own benefit.

Public confidence was destroyed. President Roosevelt, seeing his opportunity, has rightfully pressed the situation, so that we are reasonably sure of corrective legislation.

It is now popular for the so-called "yellow" writers to attribute this panic to Stock-Exchange speculation. As a matter of fact, there never was a panic in which the Stock Exchanges were so little involved. To start with, the business on the Stock Exchange during the past year has been much less than in 1901, 1905 or 1906. Following are the figures:

	<i>Bonds.</i>	<i>Stocks.</i>
1901.....	\$981,781,010	251,786,341 shares.
1905.....	1,016,034,550	260,220,317 shares.
1906.....	676,004,330	280,179,477 shares.
1907.....	540,000,000	196,000,000 shares.

When one considers the large increase in securities listed on the Stock Exchange, there was relatively less speculation in 1906 than in 1901. Furthermore, the loans in 1907 of the New York Stock Exchange members with the banks have been less than any year since 1900.

The United States Comptroller's report of September 4th, 1906, showed that New York banks were loaning \$100,000,000 less on stocks, bonds, other personal securities and mortgages, than on August 25th, 1905. The Comptroller's report for 1907 is not yet out, but any one conversant with Stock-Exchange

loans knows that Stock-Exchange houses rarely have been such small borrowers of money.

Naturally, one asks: What does the \$1,100,000,000 loans and discounts represent if it does not represent Stock-Exchange borrowings? It represents loans on municipality obligations, largely those of New York City, loans on underwritings of bonds, stocks and short-time notes of railways, also mortgages and advances to large railway and industrial corporations which have found it impossible to sell their paper. Such loans as the above are fixed and practically impossible to liquidate. The central reserve cities hold unusually small amounts of commercial paper. This class of paper has gone to the country banks. It was estimated by a Chicago banker that the country banks held \$300,000,000 on November 1st, 1907; this paper is gradually being paid off, and the cash goes to the country and stays there. In three years the country banks have increased their loans \$658,000,000 against \$70,000,000 in central reserve cities and \$213,000,000 in other reserve cities, a total of \$941,000,000 increase in loans, while specie and legal tenders increased only \$40,000,000. In this enormous increase in loans and small increase in cash lay the weakness of the situation.

The above exposition should clearly demonstrate how little the Stock Exchange has had to do with the panic of 1907.

Stock speculation, like land speculation, and extension of loans by banks, is one of the concomitant factors in every panic. It is an incident. The Stock Exchange is a barometer of business. People usually sell that which they can sell most quickly and most easily, so as to protect their more involved commitments; consequently, the Stock Exchange feels all impending trouble first.

The country at large confuses Wall Street with the Stock Exchange. The Stock Exchange is the servant of the investors all over the country. Twenty-five per cent. of the total wealth of the country is in securities, and the Stock Exchange represents the majority of that wealth in listed bonds and stocks. "Wall Street" represents nothing but individual capitalists whose financial schemes are carried out without the recognition or assistance of the Stock Exchange.

In any event, the Stock Exchange is the only large body of men doing an extensive business that gives absolute publicity to all its doings and spreads it broadcast.

After comparing these various panics, one finds much comfort in the thought that the present panic has been forced on before its legitimate time. It has found us with our farmers rich, our exports in excess of our imports this calendar year to the extent of something over \$435,000,000; our industries are not overstocked, and our merchants are not greatly extended. I believe this panic will prove more like that of 1857, and after one year's dull, not prostrate, business, we shall, when the election is over and the reductions to be made in the tariff are thoroughly understood, rapidly regain confidence and give the world a merry war for supremacy in trade, particularly so with honest administration of our trusts and not too much Governmental interference, for they will then be able to give a most excellent account of themselves. The country will realize that combinations of industries assure us against undue invasion of foreign manufacturers and effect a greater export trade, thus bringing about greater stability in wages and employment.

In view of the Currency Legislation which Congress proposes enacting this winter, I think President Buchanan's words have a special significance when he refers to "1,400 irresponsible banking institutions which, from the very law of their nature, will consult the interests of their stockholders rather than the public welfare." The "law of their nature" of our 6,500 national banks and 7,500 other banks is the same as that of the 1,400 banks in 1857, and there can be little doubt that President Buchanan's statement in a measure applies to the banks of to-day. The people believe that there is far too much speculation in the majority of our national banks. It occurs to me that to base the new currency bill upon the assets of the national banks as they stand would not be for the best interests of the people at large, as compared with the establishment of a central institution to be managed by the Government in the interests of the people. Why place the control of an elastic currency in the hands of institutions which have a significant interest in adjusting money rates to the production of dividends for their stockholders?

One reads a great deal about an elastic-currency law to avert panics and secure stability to our industrial enterprises; but I do not think our legislators realize how important it is for the well-being and happiness of the masses that the elastic-cur-

rency laws should not only protect the farmer and general business man in times of extended industrial activity, but should also provide for securing to the laborers and small depositors their savings. Any one who witnessed a run on any of the trust or savings institutions some months ago must be convinced of the correctness of this proposition. I think the British Government, in giving to its people a postal savings-bank, has done as much for the happiness of the British workman as any Government has done for its people in a century.

I doubt if the credit-currency scheme will protect the people. The banks and bankers will get the best of it; and, in the event of a great panic, with the artifices and devices which are sure to grow up under any such system, I believe the people would be apt to become thoroughly frightened and withdraw their savings from circulation, in the future as in the past. Thus hoarding would not be averted, and a panic would ensue.

I do not pretend to be a financial critic, but I have a strong conviction that the dignity and welfare of our Government will best be served by establishing a central bank based upon our national banking institutions, forcing national banks to support the central bank on any basis the authorities deem wisest, regardless of prerogatives now assumed or vested.

Again, as an adjunct to the central bank, I believe a National postal savings-bank should be an integral part of the system. A postal savings-bank would protect the poorer classes and make their rest happier and their days more contented when panics rage and their employment is threatened. Further, it would make the poor man a better citizen, causing him to feel more a part of his country. In England the limit of postal savings is \$1,000 for each individual, annuities \$500 and life-insurance \$500. About ten million people have deposits in the British postal savings-banks, and the average deposit is about \$75.

However, any bill which would give greater elasticity to our currency would mitigate our present plight. Given such a bill and a continuance of the gold production, which we have every reason to believe will not diminish in the near future, and values cannot permanently remain at their present level; but soon the economies forced upon us by the panic will regain for us confidence, and we shall once more find ourselves on the waves of prosperity.

CHARLES B. MACDONALD.